

Ongoing expenses. The Commission frankly recognized that the accounting change was "not within the carriers' control". OPEB Order, 8 FCC Rcd at 1033 ¶ 53. Yet it denied exogenous cost treatment, saying that because the carriers "exercise substantial control over the level and timing of OPEB expenses", such treatment would "give the LECs undue power to influence their PCI levels, and would undermine the incentive structure of price caps." OPEB Order, 8 FCC Rcd at 1033 ¶ 53.

There simply is not a hint of such a control test in the Commission's discussion of accounting changes in either the LEC Price Cap Order or the LEC Price Cap Reconsideration. The key passage of the LEC Price Cap Order indicated that GAAP would be on a par with changes in the Commission's Uniform System of Accounts once the Commission reviewed the FASB change to see whether it was compatible with the Commission's regulatory accounting needs:

Carriers must notify us of their intention to apply a change in GAAP and we will allow such change if we find it to be compatible with our regulatory accounting needs.

5 FCC Rcd at 6807 ¶ 168. That the Commission meant for the "control" test to be satisfied simply by the fact of exogenous imposition of the accounting rule, without concern for the underlying costs covered by the rule, is perhaps even more clearly shown in the Commission's earlier formulation of the point (in the AT&T context):

We also agree that there is *no difference in principle* between a cost change caused by a USOA change and a cost change caused by a GAAP change. We do not, however, authorize carriers automatically to adjust price caps to reflect changes in GAAP. Our current procedures for implementing GAAP in the context of the USOA require carriers to notify us of their intention to apply a change in GAAP. They may make the change only if we find it to be compatible with regulatory accounting needs. Some changes in GAAP which are compatible with regulatory needs can be carried out

within our existing rules, while others may require amendment of the USOA.

Policy and Rules Concerning Rates for Dominant Carriers, Report and Order and Second Further Notice of Proposed Rulemaking, 4 FCC Rcd 2873, 3017-18 ¶ 295 (1989) (emphasis added). The fact that a USOA change is adopted by the Commission obviously tells us nothing about how much or little the carrier may control the cost that is to be accounted for differently. Thus, the Commission's view that the two types of accounting change were "no different in principle" confirms the natural meaning of the rest of the language: an FASB change adopted by the Commission is not a change under control of the carrier, and, once mandated by the Commission, the change satisfies the control criterion. Recall also that in the LEC Price Cap Reconsideration the Commission referred to the issue of "whether the *change* is outside the control of the carrier". 6 FCC Rcd at 2664-65 ¶ 63 (emphasis added).

Like many accounting changes, SFAS-106 simply altered the *time* as of which a cost would be recognized, and that shift was indisputably outside the carriers' control. To be sure, SFAS-106 required much more *estimation* of expenses than was necessary for accounting under a cash basis. In discussing the transition obligations, the Commission referred to evidence that "a one percentage point reduction in the health care trend from the value assumed by Pac Bell would reduce the accrual amount by 15.3 percent". 3 FCC Rcd at 1035 ¶ 65. Whatever that may imply in terms of how to calculate the *amount* accrued, it obviously does not mean that the requirement to accrue was under the carriers' control.

The Commission noted in the OPEB Order that its rule—the LEC Price Cap Order and the LEC Price Cap Reconsideration—had denied exogenous cost treatment for changes in depreciation rates, on the ground that even though such changes were set by regulatory agencies, "carriers still exercise control over their depreciation costs with their decisions to deploy or retire equipment." LEC Price Cap Reconsideration, 6 FCC Rcd at 2672 ¶ 74 (cited at OPEB Order, 3 FCC

Rcd at 1033 ¶ 53). Thus, it reasoned, similar inquiry into control over the underlying costs was appropriate here. But whatever the Commission's treatment of depreciation rate changes, it held that view at the same time as it set forth its rule on the treatment of GAAP changes, yet, in the GAAP context, it said nothing about control over underlying costs. And if the disparate treatment of depreciation rates were extended to GAAP changes, it would belie the Commission's statement that they and USOA changes were "no different in principle". Accordingly, it provides no basis for injecting the issue of control over underlying costs into the classification of GAAP changes.

Transitional obligations. The FCC did not decide whether the SFAS-106 change satisfied the control prong as to the transitional obligation because it concluded that even if it passed that test, the carriers had failed to show the necessary absence of double counting under GNP-PI. OPEB Order, 8 FCC Rcd at 1033-35 ¶¶ 57-66.

We should perhaps start by explaining how SFAS-106 cost increases *might* be duplicated in the LECs' GNP-PI adjustment. If (1) the SFAS-106 cost increase represented the same fraction of total costs for all employers as for LECs (which would depend on such matters as (a) whether the average firm offered OPEBs of the same cost and character as LECs, (b) whether the demographic profile of workers as a whole were the same as that of LEC workers, and (c) whether labor costs were the same fraction of total costs for the average firm as for the average LEC), and (2) all SFAS-106-induced cost increases were passed forward to consumers in price increases, then a 1% SFAS-106 increase in LECs' OPEB costs might be matched by a 1% increase in prices generally.³ Thus, exogenous cost treatment for the LECs' SFAS-106 costs would result in complete double counting.

³ This account leaves out serious complications. For example, if the price level is a function of the quantity and velocity of money and the supply of real goods and services ($P = MV/Q$), see, e.g., Paul A. Samuelson & William D. Nordhaus, *Economics* 323 (11th

None of these assumptions appears to be valid. The most obvious difficulty is that a far lower fraction of private sector employees is eligible for OPEBs compared to telephone company employees. One of the studies submitted by the LECs quoted General Accounting Office figures to the effect that only 30.7 million out of 95.8 million private sector employees were eligible for OPEBs, or less than 30%, see Godwins Study, Joint Appendix ("J.A.") at 83, as opposed to 100% for telephone companies, see *id.* at 110 (not GAO figures). That huge discrepancy is, to be sure, somewhat offset by the lesser role of directly employed labor in telephone companies, where (under some estimates anyway) labor accounts for 38.5% of value added as against 64.3% in the economy as a whole. *Id.*

To support their claim that any double counting would be very limited, some LECs offered the Godwins study already referred to and others offered one by the National Economic Research Associates ("NERA"). The Godwins study assumed that before SFAS-106 firms offering OPEBs were *not* taking OPEB costs into account in selecting output levels or prices. (In perfect competition, of course, the firm is a price taker and price emerges from the interaction of demand with all firms' output decisions.) The study concluded that about 85% of the cost increase would not be reflected in an increase in GNP-PI. *Id.* at 68. The NERA study took the opposite tack, arguing that non-regulated firms would already have been taking accrued OPEB costs into account, so that SFAS-106 would produce no direct change in their conduct. It reasoned that in hiring an extra worker such a firm would have to take into account all resulting costs—money wages plus the present value of all future expenses including OPEBs. See NERA Study, J.A. at 32-34. Thus the *only* impact of SFAS-106 on GNP-PI would be through its impact on the prices of regulated firms, which (certainly under rate-of-return regulation) are based on booked costs. Pursuing this reasoning, the NERA study concluded that if SFAS-106 caused a 1.1% increase on the booked expenses of an average

ed. 1985), it is not clear just how implementation of SFAS-106 might have changed any of these.

firm, it would increase prices generally by only 0.12%. J.A. at 24, 54. If the SFAS-106-induced increase for NERA's client, Pacific Bell, were 1.92%, then only .12/1.92, or 6.26% of Pacific Bell's SFAS-106 cost increase needed to be deducted from its SFAS-106 cost increase to avoid double counting. *Id.* at 54-55.

The Commission attacked the Godwins and NERA studies on a variety of grounds. First it observed that neither study proved that its initial assumptions were correct, OPEB Order, 8 FCC Rcd at 1034 ¶ 63, noting caustically that the sets of assumptions were in "sharp contrast", *id.* at ¶ 62. The claim of complete want of support is in fact false, for the NERA study pointed to econometric evidence that accounting changes generally have no effect on stock prices, see J.A. at 49-50, which tends to support the proposition that the market sees through such conventions. But quite apart from that, *any* analysis of whether an exogenous change will be reflected in GNP-PI will involve some unproven—and likely unprovable—assumptions. Indeed, the Commission's own brief characterized the assumptions as "impossible to verify". FCC Brief at 22. If an agency can reject an econometric study merely by observing that it employed unproven assumptions (and that the outside party bore the burden of proof), then no party with the burden can ever prevail. "[A]ssigning the burden of proof is not a magic wand that frees an agency from the responsibility of reasoned decision-making." *Kansas Gas & Elec. Co. v. FERC*, 758 F.2d 713, 721 (D.C. Cir. 1985). To reject such a study, the Commission must at least express a reason for doubting some critical assumption.

Moreover, to the extent that the FCC concluded that because the studies began with different assumptions, neither could be relied upon, its decision was quite illogical. Given the difficulty of verifying the assumptions that must underlie any such analysis, it was natural for the LECs to cover a range of possibilities. The substantial identity of results in the face of widely varying assumptions tended simply to show that the outcome was insensitive to this variation. That rendered the conclusions more robust, not less.

Equally troubling is the Commission's pointing to the number of "parameters" for which the Godwins study suggested ranges of possible values, such that under the most extreme (i.e., anti-LEC) assumptions the lowest portion of the SFAS-106 increase *not* reflected in GNP-PI would be 60.1%. OPEB Order, 8 FCC Rcd at 1035 ¶ 64. Only 60.1%! If only 60.1% was clearly free of overlap, the proper response would seem to be to limit exogenous cost treatment to that percentage. This is especially so as the Common Carrier Bureau, when designating the issues for investigation, had separated the question of the propriety of exogenous treatment from the issue of the size of cost to receive such treatment. See *In the Matter of Treatment of Local Exchange Carrier Tariffs Implementing Statement of Financial Accounting Standards. "Employers Accounting for Postretirement Benefits Other Than Pensions"*, 7 FCC Rcd 2724, 2725 ¶ 10 (1992).

In the same vein, the Commission also based its rejection of exogenous cost treatment on a concern that SFAS-106 required the carriers to make numerous assumptions about the costs of future benefits. These estimates were deemed "highly speculative", as even small changes in certain assumptions could lead to drastic swings in the projected costs. OPEB Order, 8 FCC Rcd at 1035 ¶ 65. Given the division of the proceeding, it would seem that this problem should lead to complete rejection only if there was no way of obtaining even conservative estimates, which the Commission does not claim.

Apart from imposing impossible burdens as to GNP-PI double counting, the Commission invoked several altogether new criteria in rejecting the LECs' claim for exogenous cost treatment of the transition obligation. None of these was in the faintest way foreshadowed in the rules the Commission had adopted to handle such issues.

First, it introduced a criterion called intertemporal double-counting. As we understand it, this referred to the possibility that LECs would effectively collect twice, once on a cash basis, once on an accrual basis. See OPEB Order, 8 FCC Rcd at 1035 ¶ 67-68. The Commission acknowledged that the

LECs had asked only for the *increment* resulting from SFAS-106, *id.* at ¶ 68, but proceeded to express concern that overestimate of accrued OPEBs might lead to distortions. It is not at all clear why that cannot be resolved by reasonable conservatism in the accrual estimates. Finally, seeming to acknowledge that the issue was one of timing only, the Commission argued that exogenous cost treatment would require annual calculation of both the accrued amount and the cash amount, with only the difference (plus or minus) counting as an exogenous cost. *Id.* at 1035-36 ¶ 69. This realization may justify a change in the Commission's rule, but we fail to see how it could justify refusal to apply its rule while that still governs.

Second, the FCC suggested that if LEC investors knew that LECs would not be able to raise their rates upon implementation of SFAS-106, they might have demanded a higher rate of return; thus, unexpectedly permitting such raises would allow them to recover twice—once in the rate of return, once for the exogenous cost hike. *Id.* at 1036 ¶¶ 70-71; cf. *Duquesne Light Co. v. Barasch*, 488 U.S. 299, 311-12, n.7 (1989) (expressing assumption that the allowed rate of return will reflect degree of risk implicit in regulators' approach to application of used-and-useful rule). The reasoning here appears to stretch an insight to the outermost reaches, to the point where it may justify any arbitrary and capricious resolution of any issue: so long as investors can anticipate the caprice, no matter. That is not, however, our current legal system.

Finally, the Commission suggested the SFAS-106 cost might in some way have been already counted in calculation of the productivity offset. *Id.* at 1036 ¶ 72.⁴

⁴ Some LECs had adopted methods of prefunding OPEBs in the 1980s, thus presumably retarding their productivity improvement rates. In estimating likely productivity improvements, the Commission had not adjusted for this: any adjustment would presumably have yielded a higher estimate of annual productivity improvement. The Commission appears agnostic on whether this fact

We note that each of these three issues, if adopted as a basis for rejecting exogenous cost treatment for GAAP changes, would drive a still greater and more puzzling wedge between them and USOA changes. The fundamental difference between the two, as we said, is that GAAP changes are *initiated* by the FASB; each becomes mandatory only when mandated by the Commission.

In any event, whatever the intrinsic merits of these three possible bases for rejecting exogenous cost treatment, the Commission is free to consider them as a basis for *amending* its current rule, not for concocting a new rule in the guise of applying the old.

Accordingly, we remand to the FCC to consider the LECs' request for exogenous cost treatment of their SFAS-106 incremental costs in a manner consistent with this opinion and with the LEC Price Cap Order and the LEC Price Cap Reconsideration.

So ordered.

means that exogenous cost treatment of SFAS-106 increases would result in double counting. See *id.*

SFAS-112 Actuarial Valuation

SOUTHWESTERN BELL CORPORATION

**ACTUARIAL VALUATION OF
POSTEMPLOYMENT BENEFITS**

SFAS 112

**TOWERS PERRIN
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MAY 1993

TABLE OF CONTENTS

		<u>Page</u>
SECTION I	INTRODUCTION	1
SECTION II	ACTUARIAL VALUATION RESULTS	3
Table A	Basic Valuation Results	6
SECTION III	SUMMARY OF PLAN PROVISIONS	7
SECTION IV	SUMMARY OF VALUATION DATA	17
Table B	Active Participant Summary	19
Table C	Inactive Participant Summary — Short-Term Disability	20
Table D	Inactive Participant Summary — Long-Term Disability	21
Table E	Inactive Participant Summary — Disability Pension	22
Table F	Workers' Compensation Paid Loss Summary	23
Table G	Workers' Compensation Case Reserve Summary	24
SECTION V	SUMMARY OF ACTUARIAL METHODOLOGY	25
SECTION VI	SUMMARY OF ACTUARIAL ASSUMPTIONS	29
APPENDICES		
A1-A13	Basic Valuation Results By Subsidiary	

SECTION I -- INTRODUCTION

Southwestern Bell Corporation (SBC) currently provides various benefits to employees who terminate service with SBC prior to meeting the eligibility conditions for retirement from the company. Examples of benefits provided after employment but before retirement include (but are not limited to) short and long-term disability benefits, disability pension benefits, COBRA health continuation benefits, survivor income benefits and workers' compensation benefits. For the majority of these benefits, employer costs have been funded and expensed on a pay-as-you-go basis.

In November 1992, the Financial Accounting Standards Board issued Financial Accounting Statement No. 112 (FAS 112), Employers' Accounting for Postemployment Benefits. FAS 112 will require employers, beginning in 1994, to accrue the expected cost of postemployment benefits likely to be paid in the following manner:

- In the year FAS 112 is adopted, employers must immediately recognize their liability for postemployment benefits as of the beginning of that year less any amount already accrued for such benefits.
- Starting in the year of adoption, employers must recognize annually the increase (or decrease) in the postemployment benefit liability -- in addition to the actual cash costs -- as a charge (or credit) to income.

SBC elected to adopt FAS 112 in 1993, and retained Towers Perrin to perform an actuarial valuation as of January 1, 1993 to determine the corporation's liability for postemployment benefits under FAS 112 as of that date and expected ongoing expense for 1993. This report presents the results of that valuation. The following benefits were determined to be material under FAS 112 and were included in the valuation:

- Short-term disability income benefits
- Long-term disability income and health benefits

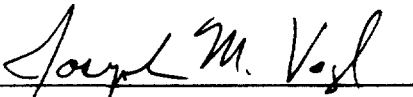
- Disability pension benefits (health benefits payable to disability pensioners and their dependents, while material, were not included; however, these benefits were included in the 1993 valuation of SBC postretirement health benefits and are accounted for under FAS 106)
- Workers' compensation benefits

The valuation results have been prepared and presented so that attention may be focused on the results by operating company/subsidiary as well as by type of benefit.

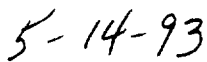
Supporting Documentation

The actuarial valuation was based upon the postemployment benefit plan provisions briefly summarized in Section III. Participant and other relevant information provided by SBC are summarized in Section IV. While the information provided has been reviewed for reasonableness, no attempt has been made to audit such information.

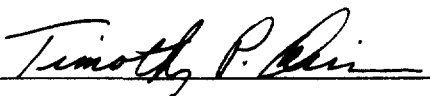
The specific actuarial methodology and assumptions underlying this study are presented in Sections V and VI. The actuarial valuation was performed in accordance with generally accepted actuarial principles and practices, and which we believe are appropriate for FAS 112 purposes.



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Vice President



5-14-93



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SECTION II -- ACTUARIAL VALUATION RESULTS

SBC's postemployment benefit obligation as of January 1, 1993 and estimated 1993 expense under FAS 112 were determined with respect to each of the following benefits:

- Short-term disability income benefits
- Long-term disability income benefits
- Long-term disability health benefits
- Disability pension benefits
- Workers' compensation benefits

Total corporation results are presented by type of benefit in Table A, while breakdowns by various corporate entities are presented in Appendices A1 through A13.

FAS 112

Financial Accounting Statement No. 112, Employers' Accounting for Postemployment Benefits, was issued in November 1992. Its intended purpose is to ensure greater uniformity in accounting for postemployment benefits by requiring employers to accrue the expected cost of benefits likely to be paid. Pay-as-you-go (cash basis) accounting for such benefits will be precluded when the new standard takes effect. Although FAS 112 is effective for fiscal years beginning after December 15, 1993, SBC has adopted the standard as of January 1, 1993 for its fiscal year beginning on that date.

FAS 112 amends FASB Statement No. 5, Accounting for Contingencies, and Statement No. 43, Accounting for Compensated Absences, to include postemployment benefits within the scope of those standards. FAS 43 accounting (accrual over years of service) would be followed only when the right to the postemployment benefit accumulates with service, payment of the benefit

is probable and the expected future cost can be reasonably estimated. If those conditions are not met, FAS 5 accounting -- a terminal accrual approach -- would apply.

For the valuation of SBC postemployment benefits, disability pension benefit costs were developed pursuant to FAS 43, while all other benefit costs were developed pursuant to FAS 5.

Postemployment Benefit Obligation

The postemployment benefit obligation represents the measure of an employer's liability for postemployment benefits under FAS 112. It consists of:

- the value of postemployment benefits expected to be paid to individuals currently receiving benefits, plus
- for benefits that are accrued over employees' active service (i.e., FAS 43-type benefits), a proportionate amount -- based on the portion of the required service period rendered -- of the value of postemployment benefits expected to be paid to current employees based on the probability of future payments and the expected duration of those payments.

Measurements of the obligation should reflect the employer's best estimate of the expected cost of future benefit payments. Discounting for interest is permitted, but not required.

As of January 1, 1993, SBC's total postemployment benefit obligation is \$101.7 Million. This obligation reflects discounting for interest, based on the assumed discount rate, for all benefits except short-term disability. The postemployment benefit obligation as of January 1, 1993, reduced by any amounts already accrued for postemployment benefits as of that date, represents the "transition obligation" under FAS 112.

Expense

FAS 112 expense consists of the following components:

1. A one-time nonrecurring charge in the year of adoption equal to the transition obligation, to be reported, net of tax effects, as the effect of an accounting change
2. An annual, ongoing charge (or credit) to income equal to (i) the increase (or decrease) in the postemployment benefit obligation for the year, plus (ii) the actual cash payments for benefits during the year

Expense for SBC for 1993 determined on this basis is as follows:

	<u>Expense (millions)</u>
Transition obligation as of January 1, 1993	\$ 101.7
Estimated ongoing expense (1993 charge to income):	
■ Expected cash payments	39.7
■ Expected change in obligation	<u>3.0</u>
■ Total	\$ 42.7

Table A

SBC 1993 POSTEMPLOYMENT BENEFITS VALUATION
Basic Valuation Results – Total Corporation
(\$000)

<u>Benefit</u>	<u>1/1/93 Postemployment Benefit Obligation</u>	<u>1993 Expense Estimate</u>		
		<u>Claims</u>	<u>Change In Obligation</u>	<u>Total Expense</u>
Short-Term Disability	\$4,761	\$22,850	\$250	\$23,100
Long-Term Disability:				
• Income Benefits	11,079	1,400	200	1,600
• Health Benefits	<u>19,331</u>	<u>1,100</u>	<u>1,650</u>	<u>2,750</u>
• Total	30,410	2,500	1,850	4,350
Disability Pension	52,059	4,750	250	5,000
Adjustment for AT&T Reimbursement of LTD Income and Disability Pension Benefits	(2,553)	(544)	352	(192)
Workers' Compensation	<u>17,001</u>	<u>10,150</u>	<u>300</u>	<u>10,450</u>
Total All Benefits	\$101,678 *	\$39,706	\$3,002	\$42,708

* Represents 1/1/93 transition obligation under FAS 112

SECTION III -- SUMMARY OF PLAN PROVISIONS

I. SHORT-TERM DISABILITY

A. Golf Club of Oklahoma Summit Telemarketing

No benefits provided

B. Associated Directory Services Worldwide Directory Product Sales

(1) Eligibility

Full or part-time (20 hours per week) management employees and regular full-time nonmanagement employees disabled due to illness or non-job-related injury

(2) Waiting Period

None for management employees; 6 months from date of employment for nonmanagement employees

(3) Elimination Period

None for management employees; 7 days from date of disability for nonmanagement employees

(4) Benefit

(a) Management employees

100% of basic monthly pay

(b) Nonmanagement employees

Benefits based on following schedule:

E. Other Subsidiaries

- | | |
|------------------------------|--|
| (1) Eligibility | Regular and temporary full and part-time employees disabled due to illness or injury |
| | |
| (2) Waiting Period | |
| (a) Disabled prior to 7/1/93 | None for job-related injury; 6 months from date of employment for other disability |
| (b) Disabled after 7/1/93 | None |
| | |
| (3) Elimination Period | |
| (a) Disabled prior to 7/1/93 | None for job-related injury; 7 days for other disability |
| (b) Disabled after 7/1/93 | 7 days from date of disability |
| | |
| (4) Benefit | |
| (a) Disabled prior to 7/1/93 | Benefits for total disability based on following schedule: |

Job-related accident

<u>Years of Service</u>	<u>Weeks at 100% of Basic Monthly Pay</u>	<u>Weeks at 60% of Basic Monthly Pay</u>
Under 15	13	39
15-19	26	26
20-24	39	13
25 or more	52	0

Other disability

<u>Years of Service</u>	<u>Weeks at 100% of Basic Monthly Pay</u>	<u>Weeks at 50% of Basic Monthly Pay</u>
Under 2	0	52
2-4	4	48
5-14	13	39
15-19	26	26
20-24	39	13
25 or more	52	0

Benefits are reduced for partial disability and/or workers' compensation income benefits payable due to disability

(b) Disabled after 7/1/93

Benefits for total disability based on following schedule:

<u>Years of Service</u>	<u>Weeks at 100% of Basic Monthly Pay</u>	<u>Weeks at 50% of Basic Monthly Pay</u>
Under 2	4	48
2-4	8	44
5-14	13	39
15-19	26	26
20-24	39	13
25 or more	52	0

Benefits are reduced for partial disability and/or other income benefits (e.g., workers' compensation, Social Security) payable due to disability

(5) Maximum Benefit Period

52 weeks

II. LONG-TERM DISABILITY INCOME

A. **Golf Club of Oklahoma**

No benefits provided

SB Printing Company

Summit Telemarketing

Times Journal Publishing Company

B. **Associated Directory Services**

Worldwide Directory Product Sales

(1) Eligibility

Employees working 30+ hours per week disabled due to illness or non-job-related injury; clerical, hourly-paid and union employees excluded

(2) Waiting Period

Period of probationary employment

(3) Elimination Period

180 days from date of disability

(4) Definition of Disability

Unable to perform own occupation for first 24 months of disability, any occupation for which reasonably qualified thereafter

(5) Benefit

Monthly benefit equals lesser of 60% of basic monthly pay or \$6,000; benefits are reduced for other income benefits (e.g., workers' compensation, Social Security) payable due to disability; minimum monthly benefit equals \$50

(6) Maximum Benefit Period

Benefits generally payable to age 65

G. ~~SB Messaging Services~~
~~Metromedia Paging Services~~
~~SB Mobile Systems~~

- | | |
|------------------------------------|--|
| (1) Eligibility | Same as short-term disability |
| (2) Waiting Period | Same as short-term disability |
| (3) Elimination Period | 26 weeks from date of disability |
| (4) Definition of Total Disability | Unable to perform any occupation for which reasonably qualified |
| (5) Benefit | Monthly benefit equals lesser of 60% of basic monthly pay or \$4,000; benefits are reduced by other income benefits payable due to disability |
| (6) Maximum Benefit Period | <p>Metromedia Paging Services: 36 months, with the elimination period counting towards the maximum benefit period</p> <p>Messaging Services and Mobile Systems: benefits generally payable to age 65</p> |
-

D. Other Subsidiaries

- | | |
|------------------------|----------------------------------|
| (1) Eligibility | Same as short-term disability |
| (2) Waiting Period | Same as short-term disability |
| (3) Elimination Period | 52 weeks from date of disability |

- | | |
|------------------------------------|--|
| (4) Definition of Total Disability | Unable to perform any occupation for which reasonably qualified |
| (5) Benefit | Monthly benefit equals 50% of basic monthly pay; benefits are reduced by other income benefits payable due to disability, including SBC service or disability pension benefits |
| (6) Maximum Benefit Period | Benefits generally payable to age 65, except benefits for job-related injury payable for life. |

III. LONG-TERM DISABILITY HEALTH

A. Associated Directory Services **(effective 1/1/93)**

Benefits limited to COBRA continuation benefits

Golf Club of Oklahoma
SB Printing Company
Summit Telemarketing
Times Journal Publishing Company
Worldwide Directory Product Sales

B. Other Subsidiaries

- | | |
|----------------------------|--|
| (1) Eligibility | Eligible for long-term disability income benefits and paying employee contributions where applicable |
| (2) Benefit | Same health benefits as provided to active employees and dependents; 100% coordination of benefits with Medicare |
| (3) Maximum Benefit Period | Benefits generally payable for duration of disability |

IV. DISABILITY PENSION

A. Associated Directory Services

No benefits provided

Golf Club of Oklahoma

SB Messaging Services

Metromedia Paging Services

SB Mobile Systems

SB Printing Company

Summit Telemarketing

Times Journal Publishing Company

Worldwide Directory Product Sales

B. Other Subsidiaries

(1) Eligibility

Eligible for long-term disability income benefits due to illness or non-job related injury after completion of 15 years of credited service

(2) Benefit

Management employees receive 1.6% times adjusted career earnings converted to a monthly benefit; nonmanagement employees receive monthly benefit equal to monthly pension band benefit times credited service; benefits are reduced by workers' compensation income benefits payable due to disability

(3) Maximum Benefit Period

Benefits generally payable for life for individuals disabled prior to 1976; for individuals disabled after 1975, benefits payable to age 65 and then converted to a service pension

V. WORKERS' COMPENSATION

Workers' compensation income and medical benefits are determined in accordance with the state workers' compensation laws for the employee's state of employment, residence or place of injury. Arkansas, Kansas, Missouri, Oklahoma and Texas constitute the states where the majority of SBC employees either work or reside.